

Message Text

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ACTION EUR-12

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
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PASS TREASURY FOR SYVRUD

E.O. 11652: N/A
TAGS: ECON, PO
SUBJECT: ECONOMIC DEVELOPMENTS: ECONOMIC REFORMS DEBATED

REF: A) LISBON 1554 B) LISBON 2118

SUMMARY. ASSEMBLY OF REPUBLIC DEBATE ON FEB 25 ECONOMIC REFORMS
SHOWED DEMOCRATIC OPPOSITION PARTIES AND GOVERNMENT, DESPITE
SOME DESAGREEMENT ON SPECIFICS, ARE LARGELY IN HARMONY ON
REQUIREMENTS FOR DEALING WITH ECONOMIC CRISIS. END SUMMARY.

1. REFORMS DEBATED: ASSEMBLY OF REPUBLIC INTERPELATION ON
GOP FEB 25 ECONOMIC RECOVERY PACKAGE TOOK PLACE MAR 16 AND
17. DEMOCRATIC OPPOSITION PARTIES (PSD AND CDS) AND GOVERN-
MENT, WHILE DISAGREEING ON SOE SPECIFICS, WERE IN BASIC
HARMONY (SEPTAL). IN JUSTIFYING FEB 25 MEASURES, FINANCE
MINISTER MEDINA CARREIRA CITED FOLLOWING STATISTICS:
-- BOP: VALUE OF PORTUGAL'S EXPORTS IN 1976 COVERED
ONLY 42 PERCENT OF THE IMPORT BILL. IMPORTS ROSE 28.5
PERCENT (FROM 99 BILLION TO 128 BILLION ESCUDOS), WHILE
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EXPORTS WERE UP ONLY 11 PERCENT (49 BILLION TO 55 BILLION
ESCUDOS).
-- FOREIGN DEBT: PORTUGAL'S TOTAL FOREIGN DEBT
(INCLUDING INDEBTEDNESS FOR CABORA BASSA HYDROELECTRIC
PROJECT BEGUN IN MOZAMBIQUE BEFORE APRIL 25 COUP AND
MOZAMBIQUE INDEPENDENCE) APPROXIMATES 130 BILLION ESCUDOS
(\$3.36 BILLION). PUBLIC FOREIGN DEBT (INCLUDING BANK OF

PORTUGAL AND CABORA BASSA DEBTS) AS OF DEC 31, 1976
WAS EQUAL TO 15 PERCENT OF GROSS DOMESTIC PRODUCT.
-- INVESTMENT: TOTAL GROSS INVESTMENT AS PERCENTAGE
OF GROSS NATIONAL PRODUCT SINCE 1974 COUP HAS BEEN: 1974
21 PERCENT; 1975 10 PERCENT; AND 1976 13 PERCENT. A
LEVEL OF 16.5 PERCENT IS PROJECTED FOR 1977.

2. EC TOUR ENDS: PRIME MINISTER SOARES WAS UP-BEAT ON
HIS RETURN TO LISBON MAR 14, FOLLOWING SECOND PHASE OF HIS
EUROPEAN TOUR IN SEARCH OF SUPPORT FOR PORTUGUESE EC
MEMBERSHIP. ANNOUNCING THAT HE EXPECTED FORMAL NEGOTIA-
TIONS ON PORTUGUESE ENTRY TO BEGIN IN EARLY 1978,
SOARES PREDICTED THAT PORTUGAL WOULD BE A "DE FACTO" EC
MEMBER "WITHIN A MAXIMUM OF THREE YEARS." HE WILL DISCUSS
HIS TOUR OVER NATIONWIDE TELEVISION MAR 18.

3. LABOR: LABOR RELATIONS REMAIN STRAINED AS NEGOTIATIONS
OVER COLLECTIVE CONTRACTS DRAG ON, BUT NO MAJOR
DISPUTE APPEARED IMMINENT (REF B). ON MAR 15 JOURNALIST
UNION SIGNED NEW COLLECTIVE CONTRACT INCREASING
SALARIES 15 PERCENT ABOVE LEVEL OF 1974 CONTRACT. NEW
CONTRACT SHORTENS WORK WEEK TO 35 HOURS AND PROVIDES
GENEROUS OVERTIME BENEFITS.

4. PRICES: SPOT CHECKS BY EMBASSY SHOW FOOD PRICES IN
LISBON AREA HAVE BEEN MOVING UP RAPIDLY SINCE FEB 25.
TREND IS MOST APPARENT IN MEATS AND DAIRY PRODUCTS
(BUTTER, FOR EXAMPLE, ROSE FROM 54 TO 100 ESCUDOS PER
KILO), AND IN SUCH IMPORTS AS BANANAS. FURTHER INCREASES
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ARE CLEARLY ON THE WAY. CONSUMER REACTION SO FAR HAS
BEEN SURPRISINGLY MILD. COMMERCE MINISTER BARRETO,
HOWEVER, NOTED RECENTLY THAT SPECULATION IS RAMPANT
AND WOULD BE PUNISHED. POSITIVE ASPECT OF PRICE INCREASES
HAS BEEN VIRTUAL END OF MEAT SHORTAGES THAT PERIODICALLY
TROUBLED LISBON BEFORE FEB 25.

5. EXCHANGE RATE: LISBON ESCUDO/DOLLAR CHECK BUT RATE
CLOSED AT 38.678 ESCUDOS PER DOLLAR MARCH 17.

6. COMMENT: ASSEMBLY DEBATE HAS DEMONSTRATED BASIC
CONSENSUS AMONG DEMOCRATIC PARTIES IN SUPPORT OF GOP
ECONOMIC RECOVERY EFFORT. PARLIAMENTARY ENDORSEMENT
SHOULD HELP TO STIFFEN THE GOVERNMENT'S RESOLVE TO
IMPLENENT ITS PROGRAM IN THE FACE OF EXPECTED GROWTH IN
PUBLIC DISSATISFACTION.
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